



New South Wales
TREASURY

Office of Financial Management

COMMERCIAL POLICY FRAMEWORK

**GUIDELINES FOR ASSESSMENT OF
PROJECTS OF STATE SIGNIFICANCE**

Office of Financial Management

Policy &
Guidelines Paper

Preface

The *Guidelines for Assessment of Projects of State Significance* form part of the monitoring regime for Government businesses, which is a component of the NSW Government's Commercial Policy Framework.

The Framework aims to replicate within Government businesses the disciplines and incentives that lead private sector businesses towards efficient commercial practices.

The key purpose of these Guidelines is to ensure a whole-of-Government approach to the assessment of projects where the State may incur substantial long-term or contingent liabilities.

These Guidelines supersede previous instructions regarding the assessment of Projects of State Significance.

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July 2002

Treasury Ref: TPP02-4
ISBN: 0 7313 3191 5

General inquiries concerning this document should be initially directed to the Commercial Policy Section of NSW Treasury on (02) 9228 4095.
This publication can be accessed from the Treasury's Office of Financial Management Internet site [<http://www.treasury.nsw.gov.au/>]. For printed copies contact the Publications Officer on Tel: 9228 4426.

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Executive Summary

These Guidelines define “Projects of State Significance”, outline the process to be followed by Government businesses when considering involvement in a Projects of State Significance, and include a proforma for submissions. The objective of the Guidelines is to ensure a whole-of-Government assessment of projects where the State may incur substantial long-term or contingent liabilities. In particular, Government businesses are required to adopt a continuous approach to:

- seeking approval for new Projects of State Significance; and
- seeking approval for variations in cost in excess of ten per cent or a significant change in the functionality of previously approved Projects of State Significance.

Government businesses are to ensure these requirements are met prior to entering into any binding commitments.

This paper forms part of the Commercial Policy Framework’s monitoring regime and is supplementary to the following documents:

- *Monitoring Policy for NSW Government Trading Enterprises, 1992, NSW Treasury;*
- *Public Authorities (Financial Arrangements Act) 1987;*
- *Working with Government – Guidelines for Privately Financed Projects, 2001, NSW Government;*
- *Guidelines for Financial Appraisal, 1997, NSW Treasury;*
- *Guidelines for Economic Appraisal, 1997, NSW Treasury; and*
- *Total Asset Management Manual, 2001, NSW Government Asset Management Committee.*

1. Background

The *Guidelines for Assessment of Projects of State Significance* (PSS) form part of the Commercial Policy Framework's monitoring regime for Government businesses. The term 'Government business' is a generic term used in this paper for convenience and includes:

- Public Trading Enterprises¹;
- Public Financial Enterprises²; and
- General Government non-Budget dependent agencies to which the Commercial Policy Framework applies.

The classification of Public Trading Enterprises (PTEs) encompasses State Owned Corporations (SOCs) that are distinguished by their corporatised status.

The reporting and monitoring requirements of this paper are supplementary to existing requirements, as listed in section 3. In particular, agencies must continue to comply fully with the procedures outlined in *Working with Government – Guidelines for Privately Financed Projects 2001* and the requirements of the *Public Authorities (Financial Arrangements) Act 1987*.

¹ or 'Public Non-Financial Corporations' under Australian Bureau of Statistics (ABS) classifications.

² or 'Public Financial Corporations' under ABS classifications.

2. Definition

Any project that satisfies **one or more** of the following criteria is deemed to be a Projects of State Significance:

- potentially controversial projects such as those that involve significant sensitivities in terms of economic, environmental or political risks;
- investment in activities interstate or overseas;
- involvement of the private sector in financial arrangements (including, but not limited to, joint ventures, joint financing arrangements, co-operative alliances, hybrid arrangements and power purchase agreements);
- complex or innovative projects with significant risks in terms of viability, procurement or Government commitment; **and/or**
- total value of the project (including debt and equity) in excess of \$100 million.

3. Objective

The objective of the Projects of State Significance Guidelines is to ensure a whole-of-Government assessment of projects where the State may incur substantial long-term or contingent liabilities.

Government businesses are not permitted to enter into any binding commitments in relation to a Projects of State Significance prior to meeting the requirements outlined in these Guidelines. In addition, existing monitoring and accountability requirements, detailed in the following documents, continue to apply:

- *Monitoring Policy for NSW Government Trading Enterprises, 1992, NSW Treasury;*
- *Public Authorities (Financial Arrangements Act) 1987;*
- *Working with Government – Guidelines for Privately Financed Projects, 2001, NSW Government;*
- *Guidelines for Financial Appraisal, 1997, NSW Treasury;*
- *Guidelines for Economic Appraisal, 1997, NSW Treasury; and*
- *Total Asset Management Manual, 2001, NSW Government Asset Management Committee.*

4. Process

Government businesses are required to adopt a continuous approach seeking approval for:

- new Projects of State Significance; and
- variations in cost in excess of ten per cent or a significant change in the functionality of previously approved Projects of State Significance.

The Cabinet Standing Committee on the Budget (Budget Committee) is responsible for providing in-principle approval for new Projects of State Significance. Shareholding Ministers (in the case of SOCs) and the Treasurer (in the case of other Government businesses) will provide final approval for these projects and variations to previously approved Projects of State Significance. However, all variations involving a substantial alteration in functionality, risks or costs are likely to require the approval of Budget Committee, based on the recommendations of Shareholding Ministers or the Treasurer, as the case may require. In addition, Budget Committee will note the outcomes of post-implementation reviews of the projects.

Government businesses are required to lodge submissions to their NSW Treasury analyst, in accordance with the three-stage process and specific information requirements outlined below.

4.1 In-principle approval

Government businesses are required to obtain in-principle approval from Budget Committee for proposed projects that meet the Projects of State Significance criteria. To facilitate this process, Government businesses must lodge a submission to their NSW Treasury analyst providing the following details (refer to Appendix A):

- certification of in-principle board approval (in the case of SOCs) or in-principle Portfolio Minister approval (in the case of other Government businesses) for the project;
- project description including specification of objective, scope, alignment with strategic intent and core business, corporate structure, feasibility of options and proposed financing arrangements;
- assessment of financial viability against the weighted average cost of capital target agreed in the Statement of Corporate Intent/Statement of Business Intent (SCI/SBI) context and supported by base case financial forecasts, sensitivity analysis and underlying assumptions;
- risk identification and mitigation strategies;
- timetable and budget for project development; and
- specification of unresolved issues prior to seeking final approval.

The NSW Treasury analyst will then lodge the submission for consideration by Budget Committee and advise the Government business of the outcome of the assessment process.

4.2 Final approval

The in-principle approval provided to Government businesses for Projects of State Significance is subject to final approval by Shareholding Ministers (in the case of SOCs) or the Treasurer (in the case of other Government businesses).

Government businesses are required to provide more comprehensive and detailed information to obtain final approval for new Projects of State Significance. To facilitate final approval as a Projects of State Significance, Government businesses must lodge a submission to their NSW Treasury analyst providing the following information (refer to Appendix A):

- certification of final board approval (in the case of SOCs) and final Portfolio Minister approval (in the case of other Government businesses);
- certification of compliance with all existing monitoring and accountability requirements;
- summary of the project including key issues and explanation of any material changes since obtaining in-principle approval;
- comprehensive financial models (accompanied by certification of independent audit ensuring the methodology, assumptions and calculations are appropriate and accurate) and sensitivity analysis identifying profit and loss, cashflow and balance sheet impacts;
- final project budget including specification of final capital costs and ongoing costs, recommended contractors and contract values and timetable detailing milestones and accountable parties;
- financing arrangements to be put in place; and
- extensive due diligence including detailed technical assessment, human resource issues, legal concerns, planning and environmental approvals, accounting and taxation issues and risk identification and mitigation strategies.

Government businesses are also required to obtain approval from Shareholding Ministers (in the case of SOCs) or the Treasurer (in the case of other Government businesses) for proposed variations in cost in excess of ten per cent or a significant change in the functionality of previously approved Projects of State Significance. Similarly, businesses must provide all details and outline the rationale for proposed changes to existing Projects of State Significance to their NSW Treasury analyst (refer to Appendix A).

Where considered appropriate, Shareholding Ministers or the Treasurer may refer final approval to Budget Committee for both new Projects of State Significance and variations to previously approved Projects of State Significance.

The NSW Treasury analyst will then lodge the submission for consideration by Shareholding Ministers or the Treasurer, as required, and advise the Government business of the outcome of the assessment process.

Upon receipt of formal approval, Government businesses are required to update their SCI (in the case of SOCs) or SBI (in the case of other Government businesses). It should be noted that the inclusion of a project in the SCI/SBI does not constitute formal approval unless the project has been explicitly approved by the Shareholding Ministers (in the case of SOCs) and the Treasurer (in the case of other Government businesses).

4.3 Post-implementation review

A review of all Projects of State Significance is required 12 months after the completion of the implementation phase. The results of this review report need to be signed off by the board (in the case of SOCs) or the Portfolio Minister (in the case of other Government businesses), prior to submission to the NSW Treasury analyst for consideration by Budget Committee. The review report must provide information on the commercial effectiveness and financial viability of the project and explanations for the level of performance. The results of these reviews will be useful for future project assessments by identifying signs of poor performance or risks that were not originally foreseen.

5. Reporting to Budget Committee and Shareholding Ministers/Treasurer

Treasury analysts are required to review Government business' submissions to ensure compliance with the Projects of State Significance approval process and specific information requirements. They should refer to the supplementary instructions for Treasury analysts, which are for internal Treasury use only.

Further Information

General inquiries concerning this document should be initially directed to:

Commercial Policy Section
NSW Treasury
Telephone: (02) 9228 4095
Internet: www.treasury.nsw.gov.au.

SUBMISSION PROFORMA

FOR

PROJECTS OF STATE

SIGNIFICANCE

A.1 In-principle Approval: New Projects 2002-03 to 2005-06

Government Business:

Contact Name:

Contact Telephone:

Project Title:

Classification as a PSS: (include details of which PSS criteria are satisfied)

Certification of Approval: (attach details of in-principle board approval for SOCs or in-principle Portfolio Minister approval for other Government businesses)

Estimated Start Date:

Estimated Completion Date:

Project Description: (specify objective, scope, alignment with strategic direction and core business, corporate structure, feasibility of options and proposed financing arrangements)

Project Financial Details:

	\$million			
	Budget Funding	Private Sector Funding	Own Sources	<i>Total</i>
Total Project Costs (include a detailed breakdown within the capital costs and ongoing costs categories)				
2002-03				
Capital Costs				
Ongoing Costs				
2003-04				
Capital Costs				
Ongoing Costs				
2004-05				
Capital Costs				
Ongoing Costs				
2005-06				
Capital Costs				
Ongoing Costs				
Balance to Complete				
Capital Costs				
Ongoing Costs				
Total Capital Costs				
Total Ongoing Costs				

Assessment of Financial Viability: (include analysis against the weighted average cost of capital target agreed in the SCI/SBI context, base case financial forecasts, sensitivity analysis and underlying assumptions)

Risks and Mitigation Strategies:

Timetable: (identify milestones)

Project Development Budget: (include a detailed breakdown of costs)

Cross Portfolio Implications:

Unresolved Issues: (specify issues requiring resolution prior to seeking final approval)

A.2 Final Approval: New Projects 2002-03 to 2005-06

Government Business:

Contact Name:

Contact Telephone:

Project Title and Summary: (specify key issues and explanation of material changes since obtaining in-principle approval)

Certification of Approval: (attach details of final board approval for SOCs or final Portfolio Minister approval for other Government businesses)

Certification of Compliance with Monitoring and Accountability Requirements: (including Monitoring Policy, Public Authorities (Financial Arrangements) Act, Working with Government – Guidelines for Privately Financed Projects, Guidelines for Financial Appraisal, Guidelines for Economic Appraisal and Total Asset Management Manual)

Financial Models: (attach detailed financial models and certification of independent audit verifying the methodology, assumptions and calculations are appropriate and accurate)

Sensitivity Analysis:

	\$million		
	Base Case	Best Case	Worst Case
Total Project Costs (specify key variables and provide a detailed breakdown where changes will have profit and loss, cashflow and balance sheet impacts)			
2002-03			
Profit and Loss			
Cashflow			
Balance Sheet			
2003-04			
Profit and Loss			
Cashflow			
Balance Sheet			
2004-05			
Profit and Loss			
Cashflow			
Balance Sheet			

	\$million		
	Base Case	Best Case	Worst Case
Total Project Costs (specify key variables and provide a detailed breakdown where changes will have income, cashflow and balance sheet impacts)			
2005-06			
Profit and Loss			
Cashflow			
Balance Sheet			
Balance to Complete			
Profit and Loss			
Cashflow			
Balance Sheet			
Total Profit and Loss			
Total Balance Sheet			
Total Cashflow			

Final Project Financial Details:

	\$million			
	Budget Funding	Private Sector Funding	Own Sources	<i>Total</i>
Total Project Costs (include a detailed breakdown within the capital costs and ongoing costs categories)				
2002-03				
Capital Costs				
Ongoing Costs				
2003-04				
Capital Costs				
Ongoing Costs				
2004-05				
Capital Costs				
Ongoing Costs				
2005-06				
Capital Costs				
Ongoing Costs				
Balance to Complete				
Capital Costs				
Ongoing Costs				
Total Capital Costs				
Total Ongoing Costs				

Recommended contractors: (provide details of all contractors and contract values)

Timetable: (identify milestones and accountable parties)

Financing Arrangements:

Due Diligence: (provide details of technical assessment, human resource issues, legal concerns, planning and environmental approvals, accounting and taxation issues and risk identification and mitigation strategies)

A.3 Final Approval: Amendments to Previously Approved Projects 2002-03 to 2005-06

Government Business:

Contact Name:

Contact Telephone:

Project Title:

Project Summary: (provide a brief outline of the project and details of proposed changes in functionality and/or reasons for variation in costs)

Project Financial Details:

	\$million					
	Previously Approved			Revised		
	Budget Funding	Private Sector Funding	Other Sources	Budget Funding	Private Sector Funding	Other Sources
Total Project Costs (include a detailed breakdown within the capital costs and ongoing cost categories)						
Prior Years Expenditure						
Capital Costs						
Ongoing Costs						
2002-03						
Capital Costs						
Ongoing Costs						
2003-04						
Capital Costs						
Ongoing Costs						
2004-05						
Capital Costs						
Ongoing Costs						
2005-06						
Capital Costs						
Ongoing Costs						
Balance to Complete						
Capital Costs						
Ongoing Costs						
Total Capital Costs						
Total Ongoing Costs						